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INFLATION IN THE EUROPEAN COMMUNITY:
A STUDY BEFORE AND AFTER GERMAN UNIFICATION

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This project focuses on the economic interaction among the member nations of the European Community (EC) by studying inflation rates in the EC before and after German unification, which occurred in 1990. The first hypothesis tested in this project states that before 1991, the implementation in the EC of a fixed exchange rate system with a band along with a strong, stable German economy, led to inflation rate convergence by the EC member nations to German inflation rates. The second hypothesis tested in this study states that German unification, which has had a destabilizing effect on the German domestic economy, resulted in inflation rate divergence from Germany by the EC member nations. The implementation of a fixed exchange rate system is the theory which explains convergence of inflation rates. The results, presented in descriptive graphs, statistical tests, and a regression model, show that inflation rate convergence by the EC members to German inflation rates occurred before German unification, while after unification, EC members' inflation rates were no longer drawn to Germany's rates of inflation.